

**STATE OF WASHINGTON**  
**DEPARTMENT OF LABOR AND INDUSTRIES**  
**INDUSTRIAL INSURANCE FUND**

**FINANCIAL INFORMATION**  
**(UNAUDITED)**

**For the following funds:**  
**608 - Accident Fund**  
**609 - Medical Aid Fund**  
**610 - Accident Reserve Fund**

**As of June 30, 1999**

Prepared by: Insurance Services Division

**State of Washington  
Department of Labor and Industries  
Industrial Insurance Fund**

**Management's Discussion and  
Analysis of Results of Operations  
and Financial Condition**

**Cash Flow from Operations**

The Industrial Insurance Fund (the Fund) administers the Workers' Compensation Insurance program in the State of Washington. Workers' Compensation benefits are paid for lost wages during disability, permanent partial and total disability, vocational rehabilitation and medical costs incurred in conjunction with the injury. Benefits are funded by premiums paid by employers and employees who are not self-insured and earnings of the Fund's investment portfolio.

Premiums collected during the fiscal year ending June 30, 1999 were \$930 million, down 2.6% from the year ending June 30, 1998. The decrease in collected premiums generally reflects the continued rate reductions effective the last several years. Medical Aid premium rates are purposely being held about 60% low in order to fairly return equity to premium paying workers and employers.

Benefits paid through the fiscal year ending June 30, 1999 were \$880 million, up 4% from the year ending June 30, 1998. Quarterly benefits paid were \$236 million.

Cash flow from investment income (primarily interest) was \$132 million for the quarter and \$489 million in the fiscal year. This is up 9.5% over the year ending June 30, 1998.

**Financial Condition**

Total assets increased by \$103 million in the quarter to end at \$8.55 billion. The \$8.55 billion is an increase of \$335 million, or 4.1%, since June 30, 1998. The increase of assets in the quarter was driven by equity appreciation of \$108 million. The contingency reserve increased \$102 million in the quarter. The quarter end contingency reserve was 21.9% of benefit and claim administration liabilities.

**Reserves**

Total benefit reserves increased \$54 million in the quarter. The Accident Fund reserves were reduced by \$12 million to reflect a change in the in the estimated ultimate frequency of TPD claims. The benefit reserve discount rate was reduced to 4.0% from 4.5% for the accident fund and the medical aid fund at December 31, 1998. This increased reserves (and decreased the contingency reserve) by \$123 million in total. Just over \$53 million came from the accident fund

**State of Washington  
Department of Labor and Industries  
Industrial Insurance Fund**

**Management's Discussion,  
continued...**

and just under \$70 million came from the medical aid fund. The discount rate was reduced to recognize the overall decrease in market yield rates since June, 1995 when the discount rate was reduced to 4.5% from 5.0%. The interest rate on 10-year treasuries was 6.17% at that time. The rate on 10-year treasuries was 4.65% at 12/31/98. The reduction of the discount rate to 4.0% from 4.5% is a prudent actuarial adjustment. The discount rate for the pension fund remains at 6.5% for the present, however a reduction is contemplated in the next twelve months. Neither the timing nor the amount are definite. Each ½ percent decrease in the discount rate will increase the pension benefit reserve and decrease the contingency reserve by approximately \$125 million.

The reserve for claims administration expenses increased \$3 million in the quarter and \$26 million in the fiscal year. The retrospective premium refund reserve decreased \$56 million in the quarter but increased \$11 million annually to end the fiscal year at \$112 million.

**Liquidity and Capital Resources**

The Fund's operation requires liquidity sufficient to meet both short-term and long-term requirements. Worker's compensation claims are subject to some variation, and therefore a higher degree of liquidity is required.

Generally, the Fund has met its operating requirements by maintaining appropriate levels of liquidity in its investment portfolio and through utilization of positive cash flow. This has allowed the Fund to minimize trading activity, maintain a stable investment portfolio, and provide a sound basis for adequate Reserves for Estimated Future Benefits.

The Fund's investment portfolio is managed by the Washington State Investment Board and the Washington State Treasurer. The portfolio is managed to balance cash flow, timing and reinvestment risks, then maximize current income while preserving capital. Currently, the Fund has the financial capability to hold its fixed income portfolio to maturity, and to match projected cash inflows from premiums and investment income from this portfolio with projected cash outflows for payment of benefits. All fixed income securities are rated Investment Grade when purchased. All foreign fixed income securities are dollar denominated; therefore there is no foreign currency fluctuation exposure.

Equity securities were restructured in the previous quarter as follows:

	<u>12/31/98</u>	<u>3/31/99</u>
Wilshire 5000 Index Fund *	-	86%
Standard & Poors (S&P) 500 Index Fund *	67%	-
Wilshire 4500 Index Fund *	19%	-
International Index Fund	14%	14%
* (fund equivalent)	<u>100%</u>	<u>100%</u>

**State of Washington  
Department of Labor and Industries  
Industrial Insurance Fund**

**Management's Discussion,  
continued...**

The S&P 500 and Wilshire 4500 Index Fund equivalents were sold during the quarter ending 3/31/99 and reinvested immediately in a fund designed to be nearly equivalent to the Wilshire 5000. Some small stocks in the Wilshire 5000 are excluded; some foreign stocks excluded from the Wilshire 5000 are included. Thus there will be some tracking error from period to period when comparing to the true Wilshire 5000 Index. The restructuring also results in a distortion to the income statement. There were \$600 million of net gains realized in that quarter largely offset by \$527 million in unrealized equity losses during the quarter.

Equity securities at 6/30/99 were distributed by fund as follows:

	<u>6/30/99</u>
Wilshire 5000 Index Fund *	87%
International Index Fund	13%
* (fund equivalent)	<u>100%</u>

The ratio of equities to total invested assets at market value exceeded 18% at 6/30/99. Equities of \$270 million were scheduled to be sold over the next several months with the proceeds invested in fixed income instruments.

The format of the **Summary of Operations and Contingency Reserve** (page 6) was modified this quarter. The categories "Net Realized Gains" located in Revenues and "Net Unrealized Gains (Losses) – Stocks" found below the line have been replaced with two entries in Revenues. The new entries are "Net Realized Gains (Losses) Fixed Income" and "Net Gains (Losses) Equities". This reflects changes made to accounting conventions and removes the distorted impression in "Net Unrealized Gains" when equities are liquidated. The new format clearly shows that the fiscal year realized gains on fixed income investments were nearly \$68 million, nearly a 50% increase from the prior year. Annual equity gains were \$173 million, mostly in the fourth fiscal quarter. These equity gains are significantly less than those in fiscal year 1998 but still \$65 million more than expected.

While equity securities are recorded at market value, investments in fixed income securities are recorded at amortized cost. At June 30, 1999, the market value of the fixed income portion of the investment portfolio exceeded the carrying value by approximately \$64 million. This is a decrease of \$431 million since June 30, 1998 and a decrease of \$230 million in the quarter. The market value of fixed income investments increases as interest rates fall. Generally, however, fixed maturities (bonds) are held to maturity so that any excess of market value over carrying value will not significantly influence management's investment decisions or future investment income or yields.

**State of Washington  
Department of Labor and Industries  
Industrial Insurance Fund**

**Management's Discussion,  
continued...**

At June 30, 1999, the investment portfolio consisted of the following (in millions):

	<u>Carrying Value</u>		<u>Market Value</u>		<u>Difference</u>
Corporate fixed income securities	\$3,435	42%	\$3,481	43%	\$(46)
Mortgages and mortgage backed securities	1,273	16%	1,253	15%	20
Common and preferred stocks (at market)	1,526	19%	1,526	19%	-
U.S. Treasury securities and obligations of U.S. government agencies and corporations	1,026	13%	941	12%	85
Debt securities issued by foreign governments	758	7%	754	8%	4
Asset backed securities	130	2%	129	2%	1
Money market	37	1%	37	1%	-
Total	<u>\$8,185</u>	<u>100%</u>	<u>\$8,121</u>	<u>100%</u>	<u>\$64</u>

**Commitments and Contingencies**

Effective July 1, 1992, the Fund was required to participate in an assigned risk pool providing workers compensation coverage under the United States Longshore and Harbor Workers' Act. The Fund is obligated to fund 50% of the operating losses incurred by the assigned risk pool. This participation is scheduled to continue as legislation passed in 1997 which extended the Fund participation indefinitely.

The Fund records any estimated loss on an annual basis, subsequent to completion of the audit of the results of operations of the assigned risk pool. No operating loss was incurred through March 31, 1999.

STATE OF WASHINGTON INDUSTRIAL INSURANCE FUND  
SUMMARY of FINANCIAL CONDITION  
(000's) omitted  
UNAUDITED

<b>Assets</b>	<b><u>6/30/99</u></b>	<b><u>3/31/99</u></b>	<b><u>6/30/98</u></b>
Cash and Investments:			
Bonds, at Amortized Cost	\$6,594,828	\$6,631,574	\$6,418,634
Stocks, at Market Value			
(Cost 1,344,067, \$1,344,067 and \$771,741)	\$1,526,103	\$1,418,464	\$1,353,156
Net Unsettled Trades	(\$15)	\$0	\$36,671
Cash	\$17,484	\$1,194	\$1,663
Total Cash and Investments	<u>\$8,138,400</u>	<u>\$8,051,232</u>	<u>\$7,810,124</u>
Other Assets:			
Premiums Receivable, Net	\$246,314	\$221,944	\$243,493
Interest Receivable	\$98,948	\$106,907	\$92,142
Land, Buildings and Equipment, Net	\$62,271	\$62,758	\$64,327
Other Assets	\$58	\$0	\$609
Total Other Assets	<u>\$407,591</u>	<u>\$391,609</u>	<u>\$400,571</u>
<b>Total Assets</b>	<u><u>\$8,545,991</u></u>	<u><u>\$8,442,841</u></u>	<u><u>\$8,210,695</u></u>
 <b>Liabilities and Contingency Reserve</b>			
<b>Liabilities</b>			
Estimated Future Benefits:			
Accident Fund	\$2,765,709	\$2,777,519	\$2,647,159
Medical Aid Fund	\$2,370,486	\$2,324,948	\$2,141,506
Pension Reserve Fund	\$1,270,384	\$1,250,389	\$1,207,861
Total Estimated Future Benefits	<u>\$6,406,579</u>	<u>\$6,352,856</u>	<u>\$5,996,526</u>
Other Liabilities:			
Claims Administration	\$449,866	\$447,250	\$424,163
Retro Rating Adjustments	\$112,044	\$168,376	\$101,222
General Obligation Bonds Payable	\$54,810	\$54,810	\$56,820
Other Accrued Liabilities	\$21,766	\$20,771	\$25,151
Deferred Revenue	\$388	\$548	\$403
Total Other Liabilities	<u>\$638,874</u>	<u>\$691,755</u>	<u>\$607,759</u>
<b>Total Liabilities</b>	<u>\$7,045,453</u>	<u>\$7,044,611</u>	<u>\$6,604,285</u>
<b>Contingency Reserve</b>	<u>\$1,500,538</u>	<u>\$1,398,230</u>	<u>\$1,606,410</u>
<b>Total Liabilities and Contingency Reserve</b>	<u><u>\$8,545,991</u></u>	<u><u>\$8,442,841</u></u>	<u><u>\$8,210,695</u></u>

This information is from Washington State's Accounting and Financial Reporting System.

**STATE OF WASHINGTON INDUSTRIAL INSURANCE FUND**  
**SUMMARY of OPERATIONS and CONTINGENCY RESERVE**  
(in thousands of dollars)

**For 3 months and 12 months ending June 30, 1999,**  
**and 12 months ending June 30, 1998**

**UNAUDITED**

	<b>3 months ended 6/30/99</b>	<b>Percent of Net Premium</b>	<b>YEAR ended 6/30/99</b>	<b>Percent of Net Premium</b>	<b>YEAR ended 6/30/98</b>	<b>Percent of Net Premium</b>
<b>Revenues</b>						
Premiums Earned:						
Net Standard Premiums	\$223,749	114%	\$931,081	115%	\$934,274	108%
Retrospective Rating Adjustments	(\$27,173)	-14%	(\$120,034)	-15%	(\$71,658)	-8%
Net Premiums Earned	<u>\$196,576</u>	<u>100%</u>	<u>\$811,047</u>	<u>100%</u>	<u>\$862,616</u>	<u>100%</u>
Net Investment Income	\$118,707	60%	\$476,323	59%	\$456,673	53%
Net Realized Gains (Losses) Fixed Income	\$1,195	1%	\$68,910	8%	\$47,060	5%
Net Gains (Losses) Equities	\$107,639	55%	\$172,948	21%	\$367,131	43%
Self Insured Pension Contributions	\$4,277	2%	\$31,941	4%	\$32,809	4%
Other Income (Expense, all Dividends as shown)	\$0	0%	(\$203,068)	-25%	\$0	0%
<b>Total Revenues</b>	<u>\$428,394</u>	<u>218%</u>	<u>\$1,358,101</u>	<u>167%</u>	<u>\$1,766,289</u>	<u>205%</u>
<b>Expenses</b>						
Benefits Incurred:						
Accident Fund	\$93,277	47%	\$517,949	64%	\$505,928	59%
Medical Aid Fund	\$143,904	73%	\$583,834	72%	\$399,568	46%
Pension Reserve Fund	\$52,558	27%	\$188,190	23%	\$189,532	22%
Total Benefits Incurred	<u>\$289,739</u>	<u>147%</u>	<u>\$1,289,973</u>	<u>159%</u>	<u>\$1,095,028</u>	<u>127%</u>
Administrative Expenses:						
Claims Administration	\$22,211	11%	\$105,002	13%	\$83,323	10%
Underwriting	\$6,476	3%	\$23,723	3%	\$23,846	3%
General Insurance Expense	\$4,847	2%	\$17,552	2%	\$18,478	2%
Other Administrative Expenses	\$5,213	3%	\$38,583	5%	\$42,359	5%
Total Administrative Expenses	<u>\$38,747</u>	<u>20%</u>	<u>\$184,860</u>	<u>23%</u>	<u>\$168,006</u>	<u>19%</u>
<b>Total Expenses</b>	<u>\$328,486</u>	<u>167%</u>	<u>\$1,474,833</u>	<u>182%</u>	<u>\$1,263,034</u>	<u>146%</u>
<b>Net Income</b>	<u>\$99,908</u>	<u>51%</u>	<u>(\$116,732)</u>	<u>-14%</u>	<u>\$503,255</u>	<u>58%</u>
<b>Change in Non-Admitted Assets</b>	<u>\$2,400</u>		<u>\$10,860</u>		<u>\$15,838</u>	
<b>Change in Contingency Reserves</b>	<u>\$102,308</u>		<u>(\$105,872)</u>		<u>\$519,093</u>	
<b>Contingency Reserve, beginning of period</b>	<u>\$1,398,230</u>		<u>\$1,606,410</u>		<u>\$1,087,317</u>	
<b>Contingency Reserve, end of period</b>	<u>\$1,500,538</u>		<u>\$1,500,538</u>		<u>\$1,606,410</u>	

This information is from Washington State's Accounting and Financial Reporting System.

STATE OF WASHINGTON  
INDUSTRIAL INSURANCE FUND  
CASH FLOW SUMMARY  
(in thousands of dollars)

For the 3 months and 12 months ended June 30, 1999  
and  
12 months ended June 30, 1998  
UNAUDITED

	<b>3 months ended 6/30/99</b>	<b>Percent of Net Premium</b>	<b>12 months ended 6/30/99</b>	<b>Percent of Net Premium</b>	<b>12 months ended 6/30/98</b>	<b>Percent of Net Premium</b>
Standard Premiums Collected	\$199,302	168%	\$929,820	102%	\$954,972	104%
Self Insured Pension Contributions Collected	\$2,542	2%	\$25,677	3%	\$33,349	4%
Retrospective Rating Adjustments	(\$83,505)	-71%	(\$109,212)	-12%	(\$74,054)	-8%
Net Premiums Collected	<u>\$118,339</u>	<u>100%</u>	<u>\$846,285</u>	<u>93%</u>	<u>\$914,267</u>	<u>100%</u>
Other Income (Expense) *	\$7,875	7%	(\$191,760)	-21%	\$11,796	1%
Fund Transfers In (Out)	\$1,761	1%	\$200	0%	(\$2,807)	0%
Cash Flow In	<u>\$127,975</u>	<u>108%</u>	<u>\$654,725</u>	<u>72%</u>	<u>\$923,256</u>	<u>101%</u>
Benefits Paid	\$236,015	199%	\$879,920	96%	\$845,655	92%
Claims Administration Expense	\$19,596	17%	\$79,300	9%	\$75,897	8%
Premium Administration Expense	\$5,092	4%	\$20,910	2%	\$21,133	2%
General Insurance Expense	\$3,817	3%	\$15,470	2%	\$16,375	2%
Other Administrative Expense	\$8,089	7%	\$34,525	4%	\$37,175	4%
Cash Flow Out	<u>\$272,609</u>	<u>230%</u>	<u>\$1,030,125</u>	<u>113%</u>	<u>\$996,235</u>	<u>109%</u>
Operating Cash Flow	(\$144,634)	-122%	(\$375,400)	-41%	(\$72,979)	-8%
Net Investment Income	\$131,866	111%	\$489,059	53%	\$446,685	49%
Temp Fund (Purchases)/Sales	\$0	0%	\$0	0%	\$0	0%
Bond (Purchases)/Sales	\$31,462	27%	(\$91,570)	-10%	(\$363,590)	-40%
Fixed Asset Activity, Net	<u>(\$2,407)</u>	<u>-2%</u>	<u>(\$6,269)</u>	<u>-1%</u>	<u>(\$8,794)</u>	<u>-1%</u>
Net Cash Flow	<u>\$16,287</u>	<u>14%</u>	<u>\$15,820</u>	<u>2%</u>	<u>\$1,322</u>	<u>0%</u>
Beginning Cash	<u>\$1,196</u>		<u>\$1,663</u>		<u>\$341</u>	
Ending Cash	<u><u>\$17,483</u></u>		<u><u>\$17,483</u></u>		<u><u>\$1,663</u></u>	

\* Includes total dividends of \$203M.

The source of this financial information is Washington State's Accounting and Financial Reporting System.



# **State of Washington Industrial Insurance Fund**

## **Notes to Financial Information**

### **Note A - Summary of Significant Accounting Policies**

The State of Washington prepares a Comprehensive Annual Financial Report (CAFR) which includes all funds and account groups of the State and which is in accordance with generally accepted accounting principles (GAAP). The financial activities of the Labor and Industries workers' compensation programs are included in the CAFR.

The accompanying financial information uses "statutory" accounting principles, as would be required of a casualty insurance enterprise when reporting its financial condition to insurance regulators.

Under statutory accounting principles, certain assets (principally receivables which are greater than ninety days past due and office furniture and equipment) are charged against the contingency reserve. Under GAAP, such assets would be recorded on the balance sheet as assets, less valuation allowances or accumulated depreciation.

Bonds are stated at cost, adjusted for amortization of premiums and accretion of discounts, which are recognized as adjustments to investment income. Under GAAP, some or all of the fixed income securities would be stated at market value. Gains or losses on disposition are based on net proceeds and the adjusted carrying amount of the securities sold, using the specific identification method. Equity securities are stated at market value. Changes in unrealized appreciation or depreciation on equity securities are recorded in the contingency reserve.

The Supplemental Pension and Second Injury Funds (See Note C) were not included in these statements because the primary purpose of these statements is to present the financial condition and results of operations of those funds required to maintain actuarial solvency as a basis for premium rates.

### **Note B - Description of the Industrial Insurance Fund**

The State of Washington, through Title 51 RCW, requires employers to secure payment of benefits for job-related injuries and diseases either by paying insurance premiums to the Workers' Compensation Fund or by self-insuring. Direct private insurance is not authorized, although self-insurers are permitted to reinsure up to 80 percent of their obligations thorough private insurers.

# State of Washington Industrial Insurance Fund

## Notes to Financial Information

### **Note B - Description of the Industrial Insurance Fund, continued;**

The statutes provide five benefit funds to make compensation payments to injured employees for various losses. The Accident, Medical Aid, and Pension Reserve Benefit Funds are required to be self-sustaining by insurance premiums. These financial statements report on the financial condition and results of operations of these funds.

The Accident Fund pays compensation directly to injured employees for lost wages during temporary disability, for permanent partial disability awards, and awards pensions to survivors of fatally injured workers and to workers adjudged to be permanently and totally disabled. Claim liabilities are discounted to their present value, as reported in these financial statements, based upon a 4.0% interest rate assumption. Revenues for this fund are provided by employer-paid premiums, calculated on the basis of hours worked.

The Medical Aid Fund pays for the cost of medical and vocational rehabilitation service to injured workers. Employers are allowed to withhold half of the medical aid premium from employees' wages. Medical reserves are discounted to their present value, as reported in these financial statements, based upon a 4.0% interest rate assumption. Revenues for this fund are provided by equal contributions from employers and employees.

The Pension Reserve Fund pays benefits to all permanently disabled pensioners including disabled employees of self-insured employers. These reserves are discounted based upon a 6.5% interest rate assumption. Funding for these pensions is provided by transfers from the Accident Fund and from self-insurers.

The Accident, Medical Aid and Pension Reserve Funds are required to be maintained on an actuarially solvent basis, except that a cash flow basis is authorized for the components of the Pension Reserve fund when related benefits are guaranteed, with a surety bond, by self-insured employers.

Benefit and claim administration expense liabilities are computed by the Agency's actuaries. These liabilities are reviewed at the end of the fiscal year by independent consulting actuaries. The liabilities are estimated future claim and claim administration expense payments for injuries occurring on or before the balance sheet date on a discounted basis. Future premium income is not offset against claim liabilities, as the claims liabilities arise from coverage periods for which premiums have, in general, already been fully earned. The obligation to pay claim and claim administration expense liabilities is not contingent upon any future premium for future coverage periods.

# **State of Washington Industrial Insurance Fund**

## **Notes to Financial Information**

### **Note C - Other Related Funds**

The Second Injury Fund is used to pay pension costs on claims where permanent total disability is wholly or partially caused by a pre-existing condition. It is funded by amounts received from the Accident and Medical Aid Funds for state fund claims, and by self-insured assessments for self-insured claims. An allowance for future second injury benefit payments is contained within the Accident Fund and Medical Aid Fund claim reserves for State Fund claims. Therefore, this fund does not carry any reserves. This fund's operations are not directly accounted for in these financial statements, but second injury claims which it services are accounted for through the Accident and Medical Aid Funds.

The Supplemental Pension Fund provides for supplemental cost-of-living adjustments to injured employees receiving disability payments. However, the enabling statute requires this fund to operate on a current payment basis and is subject to legislative cancellation. No assets are allowed to accumulate for the future servicing of current claims. Cost-of-living increases are based on the increase in the state average wage during the preceding calendar year and are granted in July. This fund is financed through assessments to self-insurers and State employers; half of the assessment may be deducted from employees' wages. Income, expense, assets, or future claim liabilities related to Supplemental Pension or Second Injury Funds are not included in the attached financial statements.

The Second Injury Fund and the Supplemental Pension Fund are included in the CAFR. Because these funds are not required to maintain actuarial solvency, as the Accident, Medical Aid, and Pension Funds do, they are not included in this financial information.

### **Note D - Premiums Receivable, Net**

All employers in the State of Washington subject to Title 51 of RCW are required to be covered by the Industrial Insurance Fund and pay policy premiums for workers' compensation insurance, except for certain qualifying employers electing to self-insure. Premiums are based on individual employers' reported payroll hours and insurance rates based on each employer's risk classification(s) and past experience. In addition to its regular premium plans, the Fund offers a retrospective premium rating plan under which premiums are adjusted annually for up to four years following the plan year based on individual employers' loss experience. Adjustments to the original premiums are paid to or collected from the employers approximately ten months after the end of each plan year. Employer premiums are due 30 days following the calendar quarter covered. An allowance for uncollectible premiums is established when the account becomes delinquent.

**State of Washington  
Industrial Insurance Fund**

**Notes to Financial Information**

**Note E - Reinsurance**

The Agency maintains reinsurance agreements with reinsurance companies which provide for recovery of claims to the extent that such claims exceed \$25 million (up to \$375 million) ultimate net loss on a per occurrence basis during the reinsurance coverage period. The Agency would be liable to the extent reinsuring companies are unable to meet their treaty obligations. Reinsurance premiums, commissions, expense reimbursements and reserves related to reinsurance ceded are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums ceded to other companies have been reported as a reduction of premium income.

**Note F - Estimated Future Benefits**

Reserves for unpaid benefits and claims administration expenses in the Accident Fund and Medical Aid Fund are provided based primarily on ratios of paid to date losses for older accident periods. For more recent accident periods, a selection of several common actuarial techniques is used. These estimates are continually under review and, as changes to the liabilities become necessary, such adjustments are reflected in income currently.

The liability for benefits for the Pension Reserve Fund is determined from individual claims transferred to this fund. Such liabilities are necessarily based on estimates and, while management believes that the amount is adequate, the ultimate liability may be in excess of or less than the amounts provided.